Department of Veterans Affairs
Washington, DC 20420

VA HANDBOOK 4511
Transmittal Sheet
August 7, 2003

PROPERTY, PLANT, AND EQUIPMENT

1. REASON FOR ISSUE: This handbook provides accounting procedures for property, plant, and equipment (PP&E) owned or leased by the Department of Veterans Affairs (VA), deferred maintenance on PP&E, and clean-up costs.

2. SUMMARY OF CONTENTS/MAJOR CHANGES: This handbook establishes the PP&E accounting procedures necessary to implement established policy.

3. RESPONSIBLE OFFICE: The Accounting Policy Division (047GA1), Office of the Deputy Assistant Secretary for Finance (047), is responsible for the material contained in this directive.

4. RELATED DIRECTIVE: VA Directive 4511, Property, Plant, and Equipment

5. RESCISSIONS: None

CERTIFIED BY:

/s/
John A. Gauss
Assistant Secretary
for Information and Technology

BY DIRECTION OF THE SECRETARY OF VETERANS AFFAIRS:

/s/
William H. Campbell
Assistant Secretary for Management

Distribution: RPC
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PP&E ACCOUNTING PROCEDURES

1. **Heritage Assets.** Heritage assets will either be totally heritage in purpose (e.g., chapels, bandstands, theaters, Grist Mill at Perry Point) or multi-use (predominant use is general government operations; e.g., former national home buildings, former military post buildings, architectural set buildings, gate houses, and various personnel and officers' quarters). One example of evidence that a particular asset is heritage in nature is that the asset is listed or eligible for listing (having equivalent legal status) on the National Register of Historic Places.

a. **Heritage only**

(1) New obligations for the costs of acquisition, construction, restoration, renovation and/or modification of VA-owned heritage assets will be recorded as a current period general operating expense in standard general ledger (SGL) Account 6100. Do not capitalize or record depreciation expense for heritage assets. The amount to record as an expense during the period when a heritage asset is transferred to VA from another Federal agency is the book value of the asset recorded on the transferring entity's books. No amount will be recognized for heritage assets acquired through public donation or devise.

(2) Budget object codes (BOC) for recording the expenses for heritage assets are:

(a) **3170** Heritage Personal Property – Includes all costs for acquisition, modification, and restoration of VA-owned personal property heritage assets.

(b) **3270** Heritage Buildings and Structures – Includes all costs for acquisition, construction, renovation and/or modification of VA-owned buildings and structures.

b. **Multi-use heritage PP&E**

(1) All acquisition, reconstruction, and betterment costs of multi-use heritage assets (i.e., heritage assets whose predominant use is general government operations) are to be capitalized as general PP&E and depreciated over the service life of the asset in accordance with the $100,000/2-year VA capitalization policy outlined in VA Directive 4511, Property, Plant, and Equipment. Station engineering staff will provide their fiscal offices with the service life. Multi-use heritage assets acquired through donation or devise shall be recognized as general PP&E at the asset's fair value, and the amount shall also be recognized as "nonexchange revenues" as defined in Statements of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources." SFFAS No. 7 defines nonexchange revenues as inflows of resources that the government demands or receives by donation. Such revenues will be recognized when a specifically identifiable, legally enforceable claim to resources arises to the extent that collection is probable (more likely than not), and the amount is reasonably estimable.

(2) Each program office will receive a listing of heritage assets, also known as historic buildings, currently noted on VA's "Inventory of Historic and Cultural Resources" prepared by VA's historic preservation officer. Assets that are on this list that serve only a heritage purpose will be expensed. This list, which is maintained by VA's historic preservation office, will serve as the Department's source of data for heritage asset financial reporting. It is critical that stations inform VA's historic preservation officer (182), Office of Facilities Management, of any changes, especially building usage and building dates, for heritage assets. Stations must send modifications, corrections or deletions for heritage assets to this office.

2. PP&E Capitalization

a. Land will be capitalized regardless of acquisition cost.

b. VA will capture and capitalize the costs of software developed for use by VA -- whether commercial off-the-shelf (COTS) software, internally developed software with or without a contractor's assistance, or contractor-developed software -- occurring during the development phase of a software project. There is no requirement that the costs must be recovered through user charges.

c. PP&E that are part of the same project/equipment/system will be capitalized when the components combined meet VA's capitalization threshold criteria, even though individual components may be less than the required capitalization threshold. Systems that serve more than one building or structure will be recorded as a separate asset in the subsidiary records.

d. All projects and major repairs that replace major portions of interior or exterior utility systems, building components (flooring, roofing, windows, etc.) and patient support and protection systems (air, oxygen, vacuum, sprinkler, fire alarm systems, etc.) will be capitalized if they satisfy the Department's capitalization criteria.

e. VA will capitalize its share of general PP&E acquired in joint ownership projects with another entity.

f. Real property, including assets acquired through installment contracts and capital lease purchases, will be capitalized when placed in service, regardless of the status of payment, if VA's capitalization criteria are met.

g. VA will capitalize nonexpendable personal property of $100,000 or more at the earlier of either the date when title passes to VA or when the asset is delivered to VA.

h. VA will capitalize leasehold improvements that satisfy VA's capitalization criteria.

i. PP&E acquired through donation, devise, or judicial process excluding forfeiture will be capitalized at the estimated fair value of the asset at the time acquired, if VA's capitalization criteria are met.

3. Cost Recognition

a. All PP&E will be recorded at cost. Cost will include all costs incurred to bring the PP&E to a form and location suitable for its intended use. Costs may include but are not limited to:

(1) Amounts paid to vendors;

(2) Transportation charges to the point of initial use;

(3) Handling and storage costs;

(4) Labor (including purchase and hire), materials, supplies, and other direct or indirect production costs (for assets produced or constructed);

(5) Engineering and architectural services for designs, plans, specifications, and surveys;

(6) Acquisition and preparation costs of land, buildings, and other facilities or structures;

(7) Building service equipment and related installation costs;

(8) Direct costs of inspection, supervision, and administration of construction contracts; and

(9) Legal and recording fees and damage claims.

b. All general PP&E, with the exception of heritage assets acquired by donation or transfer at no cost to VA, will be capitalized using an estimated fair market value. The basis for the estimate of the fair market value is available information, records, and professional judgment.

c. Cost will be recorded net of purchase discounts. VA recognizes purchase discounts lost and late payment penalties as an operating expense in the period incurred.

d. Training costs will be expensed regardless of whether the cost is for a new class or a recurring one.

e. The cost incurred to restore damaged property to its original state of usefulness will be expensed. This includes property considered damaged by acts of God, e.g., hurricanes, earthquakes, and floods. The cost of asbestos removal, regardless of dollar amount, is not capitalized.

f. The general operating expenditures incurred to maintain PP&E in a satisfactory operating condition is to be recorded as an operating expense. Examples are:

preventive maintenance, repainting, normal maintenance and repair, and costs incurred under the terms of a service contract.

g. All general PP&E acquired from other Federal agencies will be recorded at the cost recorded by the transferring entity less any accumulated depreciation (net book value). If the receiving station cannot reasonably ascertain those amounts, then the fair market value of the asset will be recorded.

h. Exchanges of property (without cash consideration) from a non-federal entity will be recorded at the fair market value of the property surrendered at the time of exchange. If the fair market value of the asset traded or exchanged is unavailable, then the fair market value of the asset acquired will be used. If neither fair market value is available, the cost of the PP&E acquired shall be the net book value of the asset surrendered. Under no circumstances is an acquired asset to be recorded at a zero value. Any difference between the net book value of the surrendered asset and the cost of the PP&E acquired will be recorded as a gain or loss.

i. Exchanges or trade-ins of property acquired with cash consideration from a non-federal entity shall be recorded at the fair market value of the property surrendered at the time of exchange plus any cash paid by VA. If the fair market value of the asset traded or exchanged is unavailable, then the fair market value of the asset acquired will be used. If neither fair market value is available, then the net book value of the asset traded-in, plus the cash paid for the new asset, will be recorded.

k. Capitalized costs for internally developed software are limited to costs incurred during the software development phase. Costs incurred during the preliminary and operations phases are to be expensed as general operating expenses. The software life cycles generally are divided into three phases: planning, development, and operations. The planning phase generally consists of conceptual formulation, evaluation, testing of alternatives, and selection of a specific alternative. The development phase generally includes configuration, coding, hardware installation, and testing, including parallel processing. The operations phase includes data conversion and application maintenance.

4. Depreciation. The Fiscal Service, in conjunction with Engineering, will accomplish the assignment of useful lives for real property. The useful life for nonexpendable personal property is determined and assigned by the Office of Acquisition and Materiel Management (OA&MM). The assigned useful life will reflect the primary element of the property for which costs can be determined. For projects that contain component elements, the useful life assigned will reflect the component part that best represents the project as a whole.

5. Disposition of Property

a. PP&E that is no longer in service will be transferred both in the general ledger and the subsidiary ledger to an excess property account until final disposition. No additional depreciation expense will be recorded after the transfer to the excess account occurs. The asset will be recorded at its estimated fair market value. Any difference between its fair market value and its book value will be recognized as a gain or loss in the period of adjustment.

b. Proceeds from the sale of personal property that will be used to purchase similar replacement equipment will be deposited in 36F3845, Proceeds of Sales, Personal Property. These proceeds will be available to VA for the fiscal year of sale and one fiscal year thereafter, and may only be used to purchase similar replacement equipment in accordance with the requirements of the Federal Property Management Regulations, 41 C.F.R., Chapter 101, Section 45.307, Proceeds From Sales.

c. If equipment was originally purchased from Supply Fund resources, and the proceeds from the sale of personal property will not be used to purchase similar equipment, the proceeds will be returned to the Supply Fund (Fund 4537B).

d. If a station receives proceeds from the sale of equipment, and similar equipment is not purchased within the allowed time; i.e., year of sale plus one fiscal year thereafter, and the equipment was not originally purchased from the Supply Fund, the proceeds must be deposited into Miscellaneous Receipts Fund 3220, which returns the proceeds to the Department of the Treasury.

6. Clean-up Costs. An estimated cumulative liability for the clean-up costs for hazardous waste will be recorded in the Assets and Miscellaneous Accounts Fund (AMAF) or the appropriate trust or revolving fund**.** This estimate will be updated every quarter of the fiscal year. Included are clean-up and disposal costs generated by permanent or temporary closure or shutdown of the associated general PP&E**.**

a. Only identified, current conditions requiring future clean-up will be recorded as a liability (for example, asbestos and/or lead paint abatement projects, Superfund/ Resource Conservation and Recovery Act liability, and stabilization of fuel tanks when abandoned for future use). Record the accrued liability with the following transaction:

SV 58	DR	6801	Hazardous Waste Clean-up Costs
	CR	2996	Accrued Unfunded Clean-up Costs

b. The accrual transaction will reverse with the automated opening accounting process. Stations will then record a new total estimated clean-up liability transaction. All required payments for actual clean-up projects will be in the funding appropriation or fund.

c. The BOCs to record these costs are:

(1) **3155** <u>Hazardous Waste Clean-up, Equipment</u> - Includes clean-up costs of removing, containing, treating, and/or disposing of hazardous waste from equipment, or material and/or equipment that contains sufficient quantities of hazardous waste to be deemed hazardous at permanent or temporary closure or shutdown of PP&E (e.g., both the equipment and the rubble containing hazardous material). This does not include day-to-day treatment, care, and/or disposal of hazardous waste used for day-to-day operations such as developing fluid for X-ray equipment.

(2) **3255** Hazardous Waste Clean-up, Buildings and Other Structures - Includes clean-up costs of removing, containing, and/or disposing of hazardous waste from buildings and other structures, or material and/or property that contains sufficient quantities of hazardous waste to be deemed hazardous at permanent or temporary closure or shutdown of PP&E (e.g., both the asbestos and the rubble containing asbestos generated from the asbestos removal). This does not include day-to-day treatment, care, and/or disposal of hazardous waste used for day-to-day operations such as developing fluid for X-ray equipment.

7. Deferred Maintenance. The Department will present financial data for deferred maintenance as required by the Office of Management and Budget. Every quarter of the fiscal year, program offices will record the estimated cumulative total of deferred maintenance projects for capitalized assets that are projected to cost $100,000 or more. The costs will be recorded in the AMAF fund. The offset account for each of these transactions is a credit to 9206, Offset, Deferred Maintenance. The transactions and Standard General Ledger (SGL) accounts are:

SGL Transaction	Account	Account Title
SV 6A	9201	Deferred Maintenance- Land and Land Rights
SV 6B	9202	Deferred Maintenance-Buildings
SV 6C	9203	Deferred Maintenance-Equipment
SV 6D	9204	Deferred Maintenance-Other Structures
SV 6E	9205	Deferred Maintenance-Heritage Assets

a. At the end of each fiscal year, the 9000 memo accounts will close. Each fiscal year, stations will record the estimated fiscal year-end deferred maintenance total by category.

b. Station fiscal and engineering services must work together to ensure this information is recorded in the SGL. Methods such as condition assessment surveys, life cycle cost forecasts, or any other methodology that will satisfy general government auditing standards is acceptable for determining financial data reported for deferred maintenance.

c. Condition assessment surveys are periodic inspections of PP&E to determine their current condition and the estimated cost to correct any deficiencies. It is desirable that condition assessment surveys be based on generally accepted methods and standards and that they be consistently applied.

d. Life cycle costing is an acquisition or procurement technique that considers operational, maintenance, and other costs in addition to the acquisition cost of assets. Because it results in a forecast of maintenance expense, the forecast may serve as a basis against which to compare actual maintenance expense and estimated deferred maintenance.

8. Software Capitalization. VA capitalizes the costs of software developed for use by VA, whether COTS software, internally-developed software with or without a contractor's assistance, or contractor-developed software, occurring only during the development phase of a software project. These are costs that start at the point VA management determines it is more likely than not the software project will be completed and used to perform the intended function. Costs incurred during the planning and operations phases will be expensed as general operating expenses.

a. If management determines that the software project will not be completed or implemented (noncapitalizable costs), then the related book value of the software project will be reduced to reflect the expected net realizable value, if any, and the loss recognized. The following transaction recognizes a loss for noncapitalizable software costs incurred in prior fiscal years:

Debit		Credit
SV50	7212 Loss on Disposal/Write-off PP&E	1832 Internal Use Software in Development

(The above SV50 transaction will be used to write off the prior fiscal year's noncapitalizable software development costs.)

b. Noncapitalizable software development costs incurred in the current fiscal year will be written off from SGL Account 1832 to SGL Account 6100 by EW transactions. The first EW transaction with a decrease indicator will post using BOC 3124 while the second EW transaction with an increase indicator will post using BOC 3134.

9. Capitalization/Expense Classification Guidance. The following should be used as guidelines in determining capitalizable costs. Specific questions regarding whether a particular cost should be capitalized or expensed should be referred to the Office of Financial Policy, Accounting and Payroll Policy Service (047GA).

a. **Capitalized Costs**:

(1) The capitalized costs for internally-developed software include salaries of programmers, systems analysts, project managers, and administrative personnel, and associated employee benefits, outside consultant fees, rent, supplies, and documentation manuals.

(2) The capitalized costs for commercial off-the-shelf (COTS) software are the amounts paid to the vendors.

(3) The capitalized costs for contractor-developed software includes the amount to design, program, install, and implement the software.

(4) Internal costs incurred by VA to implement COTS or contractor-developed software will be capitalized.

(5) For capitalization, software that is integrated into and necessary to operate general PP&E will be considered part of the PP&E of which it is an integral part.

(6) The acquisition cost of enhancements to existing internal use software will be capitalized when it is more likely than not that the enhancement will result in significant additional capabilities.

a. **Expense**:

(1) Data conversion costs, whether for internally-developed, COTS, or contractor-developed software (expensed during the period incurred).

(2) Costs incurred during the planning and operations phases (expensed as general operating expenses).

(3) Training costs incurred regardless of whether the training is for a new project or recurring training.

(4) Costs incurred only to repair a design flaw or to perform minor upgrades that may extend the useful life without adding capabilities.

(5) The cost of minor enhancements resulting from ongoing systems maintenance, and the purchase of enhanced versions of software for a nominal charge (expensed in the period incurred).

(6) Costs incurred after final acceptance testing has been successfully completed.

b. **Bundled Products and Services**. In cases where internal use software is purchased as part of a package of products and services, capitalizable and noncapitalizable costs of the package will be allocated among individual elements on the basis of a reasonable estimate of their relative fair value. Costs that are not susceptible to allocation between maintenance and relatively minor enhancements will be expensed.

c. **Amortization**. Amortization of capitalized costs of internal use software will commence only at the point when final acceptance testing is successfully completed and it has been demonstrated that the software can meet the requirements for which it was developed. Capitalized software should be systematically amortized over the estimated useful life of the software. The estimated useful life recorded for amortization should be consistent with that used for planning the software acquisition.

e. **Transactions Recording**

(1) Each internal use software project that meets VA's capitalization criteria as defined in this directive will be assigned a project number. To maintain effective controls over the issuance of project numbers, numbers will be assigned centrally by each VA administration at the corporate level. Project numbers assigned must conform to the current accounting structure requirements.

(2) All contractor planning phase costs of internal use software will be recorded using BOC 2515. The assignment and inclusion of a project number for contractor costs will simplify the recordation process when the project moves to the developmental phase. Salaries and other costs will be posted in FMS with the BOC relevant to the reason for the costs; e.g., salaries and benefits are posted in the 11 and 12 BOC series.

(3) When a project enters the developmental phase, all costs that are identified as proper for recording as a contractual service using the BOC 25 series will be entered as a new obligation with the project number and BOC 3124. Costs for the project for the developmental phase, which are paid with a BOC other than 3124, will be transferred quarterly to the project through the use of the SV BA transaction. No other additional entries are required. Costs incurred after the developmental phase will be expensed, and no transfer is required as the costs are already in an expense account.

(4) The administrative staff office responsible for each qualified software project will maintain a labor distribution schedule (centrally) to accumulate benefit costs for VA employees working on each project. For simplicity, the costs of life insurance, health insurance, and retirement will be estimated as a percentage of salary. These benefits costs will be identified by a project number and transferred into SGL account 1832 quarterly using SV BA transaction.

(5) The administrative staff office will provide supporting documentation with the requested transactions to be posted into FMS and will also maintain a copy of the documentation within the office.

(6) The costs of an internal use software project recorded in SGL account 1832 that does not meet the capitalization threshold after completion of the project will be expensed using the EW transaction process.

(7) The following budget object codes are used for internal use software transactions recording:

(a) **BOC 2515 - Systems Analysis and Programming (Commercial Supplier)**. Includes studies, analyses, and evaluation costs incurred for internal use software. Internal use software may be COTS software, internally-developed software with or without a contractor's assistance, or contractor-developed software. These costs are limited to the costs incurred prior to the point management determines that it is more likely the software project will be completed and used to perform the intended function.

Software includes the application and operating systems, programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. For costs incurred after the decision is made to authorize and commit to the project, see BOC 3124. BOC 2515 also includes costs incurred to convert data from a legacy system into the new placed-in-service internal use software. On-going maintenance and operational costs for a system are recorded using BOCs 2507 through 2513.

(b) **BOC 3124 - Internal Use Software - Capitalized**. Includes costs incurred for internal use software by VA. Internal use software may be COTS software, internally-developed software with or without a contractor's assistance, or contractor-developed software. These costs are limited to the costs incurred after the point management determines that it is more likely the software project will be completed and used to perform the intended function. Software includes the application and operating systems, programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. For costs incurred prior to a decision being made to authorize and commit to the project, see BOC 2515. Costs incurred to convert data from existing legacy systems into a new system will be costed to BOC 2515. Internal use software that does not meet the Department's $100,000 capitalization threshold will use BOC 3134.

(c) **Standard General Ledger Chart of Accounts**. Software is initially processed through the "Software in Development" account 1832 before capitalization. It is capitalized upon completion of the development phase of the software life cycle. The transaction to move the costs in the fund or appropriation that is acquiring the software is the SV 3A. The asset will then be moved automatically through the GN-68 process to the related AMAF _ fund in the case of appropriated funds. Software assets in revolving and trust funds remain in the originating fund. The amortization process will begin when the asset is moved into 1830. Therefore, costs incurred during the second phase, development, will be collected in the SGL account "Software in Development," account 1832, and then capitalized in SGL account "Information Technology Software," account 1830, when the second phase of development is completed. The useful life for amortization will be in accordance with the planned life cycle noted during the software's planning phase.